

# Instructions for Form 587

## Nonresident Withholding Allocation Worksheet

References in these instructions are to the California Revenue and Taxation Code (R&TC).

### What's New

Beginning January 1, 2008, domestic nonresidents may use the new Form 589, Nonresident Request for Reduced Withholding, to request the reduction in the standard seven percent withholding amount that is applicable to California source payments made to nonresidents.

### General Information

#### A Purpose

Use Form 587, Nonresident Withholding Allocation Worksheet, to determine if withholding is required on payments to nonresidents.

The vendor/payee completes, signs, and returns Form 587 to the withholding agent. The withholding agent relies on the certification made by the vendor/payee to determine if withholding is required, provided the completed and signed Form 587 is accepted in good faith. Retain the completed Form 587 for your records, and provide a copy to the Franchise Tax Board (FTB) upon request.

Do **not** use Form 587 if any of the following applies:

- Payment to a nonresident is only for the purchase of goods.
- You sold California real estate. Use Form 593-C, Real Estate Withholding Certificate.
- The vendor/payee is a resident of California or is a non-grantor trust that has at least one California resident trustee. Use Form 590, Withholding Exemption Certificate.
- The vendor/payee is a corporation, partnership, or limited liability company (LLC) that has a permanent place of business in California or is qualified to do business in California. Use Form 590.
- The payment is to an estate and the decedent was a California resident. Use Form 590.

#### B Requirement

Revenue and Taxation Code (R&TC) Section 18662 and the related regulations require withholding of income or franchise tax on certain payments made to nonresidents of California for personal services performed in California and for rents and royalties on property located in

California. The withholding rate is seven percent unless the FTB grants a waiver. See General Information E, Waivers.

#### C When to File This Form

The withholding agent requests that the vendor/payee completes, signs, and returns Form 587 when a contract is entered into or before payment is made to the vendor/payee.

Form 587 remains valid for the duration of the contract (or term of payments), provided there is no material change in the facts. By signing Form 587, the vendor/payee agrees to promptly notify the withholding agent of any changes in the facts.

#### D Withholding Requirements

Payments made to nonresident vendors/payees (including individuals, corporations, partnerships, LLCs, estates, and trusts) are subject to withholding. However, no withholding is required if total payments of California source income to the vendor/payee during the calendar year are \$1,500 or less.

If the California resident, qualified corporation, or partnership is acting as an agent for the nonresident vendor/payee, the payment is subject to withholding if the nonresident vendor/payee does not meet any of the exceptions on Form 590.

Payments subject to withholding include the following:

- Payments for services performed in California by nonresidents.
- Rent paid to nonresidents if the rent is paid in the course of the withholding agent's business.
- Royalties paid to nonresidents for the right to use natural resources located in California.
- Payments of prizes for contests entered in California.
- Distributions of California source income to nonresident beneficiaries from an estate or trust.
- Other payments of California source income made to nonresidents.

Payments not subject to withholding include payments:

- To a resident of California or to a corporation with a permanent place of business in California.

- To a corporation qualified to do business in California.
- To a partnership that has a permanent place of business in California.
- For sale of goods.
- For income from intangible personal property, such as interest and dividends, unless the property has acquired a business situs in California.
- For services performed outside of California.
- To a vendor/payee that is a tax-exempt organization under either California or federal law.
- Representing wages paid to employees. Wage withholding is administered by the California Employment Development Department (EDD). For more information, contact your local EDD office.
- To reimburse a vendor/payee for expenses relating to services performed in California if the reimbursement is separately accounted for and not subject to federal Form 1099 reporting. Corporate vendor/payees, for purposes of this exception, are treated as individual persons.

#### E Waivers

A nonresident vendor/payee may request that withholding be waived. To apply for a withholding waiver, use Form 588, Nonresident Withholding Waiver Request. If the FTB has granted a waiver, you must attach a copy of FTB's determination letter to Form 587.

#### F Requirement to File a California Tax Return

A vendor's/payee's exemption certification on Form 587, Form 590, or a determination letter from the FTB waiving withholding does not eliminate the requirement to file a California tax return and pay the tax due. For return filing requirements, see the instructions for Long or Short Form 540NR, California Nonresident or Part-Year Resident Income Tax Return; Form 541, California Fiduciary Income Tax Return; Form 100, California Corporation Franchise or Income Tax Return; or Form 100S, California S Corporation Franchise or Income Tax Return.

## G Where to get Publications, Forms, and Additional Information

**By Internet:** You can download, view, and print California tax forms and publications from our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov).

**By Phone:** To have publications or forms mailed to you, or to get additional nonresident withholding information, contact the Withholding Services and Compliance at the address or automated telephone number below:

WITHHOLDING SERVICES AND  
COMPLIANCE  
FRANCHISE TAX BOARD  
PO BOX 942867  
SACRAMENTO CA 94267-0651

Telephone: (888) 792-4900

(916) 845-4900  
(not toll-free)

Fax: (916) 845-9512

## H To Get Publications, Forms, and Information Unrelated to Nonresident Withholding

**By Automated Phone Service:** Use this service to check the status of your refund, order California forms, obtain payment and balance due information, and hear recorded answers to general questions. This service is available 24 hours a day, 7 days a week, in English and Spanish.

From within the

United States: ..... (800) 338-0505

From outside the

United States: ..... (916) 845-6600  
(not toll-free)

Follow the recorded instructions. Have paper and pencil handy to take notes.

**By Internet:** You can download, view, and print California tax forms and publications from our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov).

**By Mail:** Allow two weeks to receive your order. If you live outside of California, allow three weeks to receive your order. Write to:

TAX FORMS REQUEST UNIT  
FRANCHISE TAX BOARD  
PO BOX 307  
RANCHO CORDOVA CA 95741-0307

**In Person:** Many libraries have forms and schedules for you to photocopy (a nominal fee may apply). Employees at libraries cannot provide tax information or assistance.

## Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments call:

TTY/TDD ..... (800) 822-6268

## Asistencia para personas discapacitadas

Nosotros estamos en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos pueden llamar al TTY/TDD (800) 822-6268.

## Specific Instructions

### Private Mail Box

Include the Private Mail Box (PMB) in the address field. Write the acronym "PMB" first, then the box number. Example: 111 Main Street PMB 123.

### Part I – Withholding Agent

The withholding agent must complete Part I before giving Form 587 to the vendor/payee.

### Part II – Nonresident Vendor/Payee

The vendor/payee must complete all information in Part II including the FEIN, social security number, or individual taxpayer identification number, and vendor's/payee's entity type. No withholding is required if the vendor/payee is a tax-exempt entity. Check the tax-exempt box if the vendor/payee is one of the following:

- An entity that is exempt from tax under either California or federal law such as a church, pension, or profit-sharing plan.
- An insurance company, IRA.
- A federal, state, or local government agency.

Tax-exempt vendors/payees do not need to complete Part III and Part IV, but must complete Part V.

### Part III – Payment Type

The nonresident vendor/payee must check the box that identifies the type of payment being received.

No withholding is required when vendors/payees are residents or have a permanent place of business in California.

### Part IV – Income Allocation

Use Part IV to identify payments that are subject to withholding. Only payments sourced within California are subject to withholding. Services performed in California are sourced in California. In the

case of payments for services performed when part of the services are performed outside California, enter the amount paid for performing services within California in column (a). Enter the amount paid for performing services while outside California in column (b). Enter the total amount paid for services in column (c).

If the vendor's/payee's trade, business, or profession carried on in California is an integral part of a unitary business carried on within and outside California, the amounts included on line 1 through line 5 should be computed by applying the vendor's/payee's California apportionment percentage (determined in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act) to the payment amounts. For more information on apportionment, get California Schedule R, Apportionment and Allocation of Income.

**Withholding agent.** If the amount on line 6 is greater than \$1,500, the withholding agent must withhold on all payments made to the vendor/payee until the entire amount on line 6 has been withheld upon. If circumstances change during the year (such as the total amount of payments), which would change the amount on line 6, the vendor/payee must submit a new Form 587 to the withholding agent reflecting those changes. The withholding agent should evaluate the need for a new Form 587 when a change in facts occurs.

### Part V – Certification of Vendor/Payee

Enter your name, title, and daytime telephone number, including area code. Sign and date the form and return it to the withholding agent.